

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Braintree
Contributory Retirement System
For the Four-Year Period
January 1, 1998 - December 31, 2001
PERAC 01: 08-022-05**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	7
Statement Of Changes In Fund Balances	10
Statement Of Income	11
Statement Of Disbursements.....	12
Investment Income.....	13
Statement Of Allocation Of Investments Owned	14
Supplementary Investment Regulations	15
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	17
Note 2 - Significant Accounting Policies.....	18
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration Of The System	20
Note 5 - Actuarial Valuation And Assumptions	21
Note 6 - Membership Exhibit.....	22

March 23, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Braintree** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1998** to December 31, **2001**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Mary Dundas Hayden and Patrick H LePage who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Braintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

1. **Annual Statement:** Inspection of the Annual Statements filed by the Braintree Contributory Retirement System revealed that certain line-item amounts were misclassified or did not agree with detailed supporting schedules.

Assets appear to be reported incorrectly on the Annual Statement. The Armstrong Shaw account, which appears to be a managed equity portfolio, has been recorded as fixed income. The State Street Global Advisors S&P Flagship and the Boston Co. Premier accounts, which appear to be pooled domestic equities, have been recorded as equities. These balances were consistently reported as equities for all years of the audit period. The problem stems from 1998, when there was no separate accounting for pooled domestic equity funds. The Loomis Sayles account, which appears to be a pooled domestic fixed income fund, was recorded as fixed income for 1998-2000, and as a pooled domestic equity fund in 2001. This again stems from 1998, when there was no separate accounting for pooled domestic fixed income funds.

The required investment schedules did not always support balances reported on the investment income page of the Annual Statement. Examples include: accrued interest paid (1998 and 1999); investment income received from equities (2001), and pooled funds (2000); gains/losses and increases/decreases in market value (1999, 2000, and 2001).

Recommendation: For all affected years, the asset accounts referenced above should be restated in accordance with investment objectives for each manager. Armstrong Shaw should be reported as equities; State Street Global Advisors S&P Flagship and the Boston Co. Premier as pooled domestic equity funds; and Loomis Sayles as a pooled domestic fixed income fund. The accounting of pooled funds should have been reclassified beginning in 1999, in accordance with PERAC memo #48/1999.

Prior to submission of the Annual Statement to PERAC, a review process should be established to cross-reference all appropriate line-item amounts in the Annual Statement to the detailed supporting schedules using PERAC's Annual Statement Guide published each year. If necessary, differences in custodian-provided schedules should be reconciled to the amounts reported on the Annual Statement.

Board Response: The asset accounts shall be restated properly in the 2003 Annual Statement. As discussed in the Auditors' comments some of this stems from 1998 when there was no separate accounting for pooled domestic fixed income funds. Although there was a memo advising of the new methods of accounting, this erroneous classification continued until detected in the audit. Each money manager that is procured by the System is approved by PERAC, and accounting records are also sent to the Commission monthly. The Annual Statement is submitted to PERAC each year, and it is surprising that these misclassifications were not detected until the audit some four years later. Whereas these misclassifications were never brought to the attention of the Director, the errors were perpetuated.

Braintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

Footnotes shall be added to the Annual Statement supporting schedules so that one can clearly trace the origin of numbers to the front pages of the report.

2. **Cash Reconciliation:** At the end of the audit period, there were four checks outstanding for more than six months in the checking account. These items totaled \$275.

Recommendation: Any uncashed items older than six months should be researched, so that the proper voiding and recording of these items can be completed.

Board Response: The department audits outstanding checks at least quarterly and contacts those vendors/retirees who have not cashed their checks. We strongly advise recipients to cash their checks. We can void and reissue the checks if they remain outstanding in excess of six months.

3. **Annuity Reserve Interest Calculation:** An error in calculating 1998's Annuity Reserve Fund (ARF) balance led to that year's interest calculation being understated by \$101. The compounded effect of this error was \$110 at the end of 2001. An additional error in 2002 overstated the ARF by \$6,600; the net effect of these errors was an overstatement of the ARF by \$6,500 at the end of 2002.

Recommendation: The Executive Director should make an adjusting entry for \$6,482.79 to the Annuity Reserve Fund. A review of the calculations before posting to the General Ledger would likely prevent future errors.

Board Response: The Director has made the adjusting entry in 2003. The automated ARF calculation form has been amended and a control calculation has been formulated to prevent this error.

4. **Appropriations:** The Town overpaid its FY99 appropriation by \$56,344 in 1998. No adjustment was made to subsequent payments. The System has a funding schedule that requires appropriation payments be made on July 1st. The Board considers payments made by August 15th to be timely. We found that the Water Department made its FY98 and FY02 payments a month or more after the August 15th extension. The Housing Authority makes its payment in two installments: July and December.

Recommendation: The overpayment made in 1998 has since been accounted for in the System's most recent actuarial valuations. Subsequent appropriations have reflected this overpayment; therefore no refund is due the Town. The Board should assess interest on unit appropriation payments that are received late.

Braintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

5. **Expenses:** Staff payroll funds are deposited in a Town account to be drawn upon weekly. These funds are in the Town's account for several months at a time, no interest is earned, and salaries are not properly accounted for in the General Ledger. The Treasurer processes his own weekly stipend without an approved warrant signed by the Board.

Travel expenses are not submitted on a formal voucher. Also, they are regularly misclassified as administrative expenses in the general ledger. One former and two current Board members have been reimbursed for wages lost at a rate that is not supported by documentation on file at the Board. Federal taxes are being withheld from reimbursements to one Board member.

Recommendation: Transfers of monies needed to fund payroll expenditures should be made only as needed on a warrant signed by the Board. The general ledger must be corrected to accurately reflect salary expenditures. The Treasurer can only disburse funds, including those for his own stipend, as requested on a warrant duly signed by the Board.

Board members are required to formally request reimbursement for expenses incurred while performing retirement Board business. This should be done on a voucher signed by the member, attesting to the validity of the charges incurred. This voucher must have original receipts attached. This document should then be presented to the Board for approval at a subsequent meeting. The Board recently adopted travel regulations approved by PERAC. The Executive Director should review the classification of expenses for possible errors.

Board members must provide evidence that supports the rates at which they are reimbursed by the System for time spent on Board duties. Federal taxes should not be withheld from reimbursement checks.

Board Response: Staff payroll funds are now disbursed monthly through the vendor warrant process. The retirement office issues warrants on a monthly basis. Through the warrant process, the funds are authorized by the Board to be released from its cash account to the Town's General Fund cash account. The System's Director and Town Treasurer met to discuss this process. This is believed to be the most accountable and expedient manner of handling staff payroll disbursements at this time. The independent municipal auditor for the Town requires that all disbursement of funds be documented on a formal town warrant. A discussion regarding weekly wire transfers of payroll funds directly from System's cash account into the General Fund account, revealed that the costs of 52 wire transfers versus 12 transfers outweighed the minimal savings on interest that the System would realize if transfers were made weekly versus monthly.

The Treasurer's stipend will now be placed on the Retirement's System's payroll form to be authorized by the Board.

Braintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

Travel Expenses have been submitted on a formal voucher since the adoption of the PERAC approved Travel Policy on September 27, 2002.

Per the letter dated July 17, 2003 from PERAC to the Board Counsel, Thomas F. Gibson, the Board has taken a vote recorded in the minutes of July 29, 2003. The motion reads...

Motion made and second to authorize the expenditure of \$100.00 per hour for loss of salary, or wages to Carl R. Johnson, III and David M. Shaw, Board Members, for their attendance at Braintree Retirement Board meetings, thus continuing the practice since 1986 in accordance with prior counsel Thomas Hickey's opinion.

So Voted:

Federal taxes shall no longer be withheld from the Board members compensation.

6. **Refunds:** 31% of refunds issued between 1998 and 2001 were reviewed during this examination. We found that 24% of the sample contained errors in the amount of interest refunded. All but one of these errors involved incorrectly applying the two-year interest rule to the refund, with some members receiving too much interest, and others too little. One error resulted in giving a member with more than five years of service no interest on her refund, instead of the 50% required. For 20% of the sample, the responses to whether a member's termination was voluntary or not were inconclusive.

Recommendation: The Board should undertake a review of all refunds from 1998 to date, paying particular attention to the application of the two-year interest rule. Members who are owed additional interest should be promptly refunded, and resolution of the other members' errors should be recorded in the minutes. Members' withdrawal applications must be completed in their entirety, so that no information is left open to questioning, and accurate refunds can be issued.

Board Response: The auditors brought to our attention those who were not given the proper amount of interest, and the System has refunded the correct amount. The system is in the process of reviewing of all refunds from 1998 through the present to ensure the interest rule was applied accurately.

The System does its best to ensure that all forms are completed by the department heads, and that they clearly indicate whether they have been terminated or resigned. Withdrawal requests must be honored within sixty days, {§11(1)}. In some instances the department head was not timely in returning the forms, and/or indicating the terms of separation, or they simply did not complete the form correctly. Queries were made via telephone but no notes were ever made to the file. If a department head does not comply in writing, the System is now making it policy to make notes to the file of verbal conversations.

Brintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

7. **Membership:** When reviewing reports generated by the Data National system, it appears that a number of members have contribution or incremental rates that conflict with their original dates of membership. This stems primarily from the System's method of recording buybacks of creditable and/or military service.

Forty-one files were reviewed for accuracy of contribution rates and membership dates. We found three errors: one member paying 7% instead of the 8% rate in effect at the time of his entrance into a retirement system, another who was allowed to purchase the 5% rate in effect during service time that he bought back, and a third with an incorrect amount of creditable service recorded.

Upon testing fifty members on a recent payroll report, we further found that a member with two positions in the System was contributing from only one of her salaries. Additionally, school department employees subject to the incremental 2% deduction and paid on a forty-two week basis may be overpaying, since calculations are performed based on a fifty-two week payroll cycle.

Lastly, enrollment forms were regularly missing the required witness and payroll department signatures.

Recommendation: We recommend that the System record actual membership dates in the Data National system, and adjust creditable service fields for service and/or military buybacks. The Board should calculate how much it is owed by the three members who are underpaying their contributions, resolve the debts, and collect the correct amounts going forward. The service time of the member whose record is incorrect should be adjusted.

The Board should review records of all members with multiple membership to be sure that they are contributing correctly. They should also check all forty-two week school department employees for overpayments, refund overpayments, and notify school department payroll personnel of the correct method for collecting the incremental 2% deduction.

Enrollment forms must be completed in their entirety upon entrance of a new member.

Board Response: Due to the limitations of the software, some members' contribution rates conflict with the date of membership to the System due to the fact that a member may have prior board service, which is not accounted for in the membership date. This prior service can be viewed in the member's master record.

The weekly payroll software deducts an additional 2% of any funds in excess of \$576.92. (CMR 8.02) for those employees who work 52 weeks. The Assistant Treasurer has informed

Braintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

the System that their payroll software has the ability, and does in fact calculate the additional 2% of 30,000 based on how many weeks the employee is paid.

8. **System Administration:** A review of meeting attendance by Board members indicated a trend of the fifth member, who is appointed by the other members, of being consistently absent during meetings held in the months of January through March. The Board recently reappointed him, without noting a concern for his attendance, or identifying other candidates. Another member, who has since resigned from service, was also noted to have excessive absences (ranging from 33% to 55% per year). We also noted periodic isolated occurrences of high absenteeism for other members.

Recommendation: The Board should consider other candidates willing and able to serve as the fifth member, who has to be a non-member of the System. It is the Board's responsibility to advise those Board members who may not be upholding their fiduciary duties to the Retirement System, and to take appropriate action when necessary. If a member is excessively absent for just cause it should be noted in the minutes. If the Town was to approve an annual stipend for Board members, the Board could consider adopting supplemental regulations making payment of the stipend conditioned upon satisfactory attendance at meetings.

Board Response: When the fifth member was initially appointed candidates submitted letters of interest. The Board interviewed and selected the most qualified candidate. This candidate understood municipal government, as he was a town meeting member and his experience as a former Internal Revenue Auditor has been invaluable. During the fifth member's periodic absences he is sent the agenda, minutes, and keeps in contact with the Board via telephone. The next time the fifth member's appointment is up, the Board will solicit letters of interest.

When absent from a meeting, all the Board members review the minutes of the meeting missed to keep apprised of the Board's actions.

9. **Contracts:** While it appears that all requirements of a competitive process were met, the following items were not readily available: current ADV statements for the Boston Co. and State Street Global Advisors.

During the audit period, the Board terminated service with Hannah Group/Advest (July 1999), and 1838 Investment Advisors (December 1999). Contracts were on file, but no other procurement information was available.

Some older contracts with the Boston Co. and SSR Realty Advisors executed prior to PERAC promulgating investment regulations may have deficiencies in the language relating to indemnification of managers and acknowledgement of fiduciary status for funds invested by the Board. Files for more recent contracts contained letters from Board counsel regarding contract

Braintree Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

deficiencies and modifications proposed in order to comply with 840 CMR 16.02. These changes appear to have been made prior to execution of the contracts.

Recommendation: A procurement file should be established for each manager, consultant, custodian, and other vendors, as outlined in 840 CMR 16.08. Other recommended information would be: copies of relevant meeting minutes wherein initial RFP's, interviews, selection, and contract approval are discussed; copies of notices for RFP's (classified ads, web postings, etc...); executed contracts, subscription agreements, amendments, and exhibits; disclosure statements, and current ADV forms.

M.G.L. c. 30B, § 3 states in part: "Written documents required by this chapter shall be retained by the governmental body for at least six years from the date of final payment under the contract." In addition, the record retention schedule for retirement Boards states that investment files should be maintained for seven years after the termination of the vendor's contract i.e. managers, consultants, advisors, custodians, etc.

The Board should consider having legal counsel review its contracts with the Boston Co. and SSR Realty Advisors, and seek modification if necessary.

Board Response: The System has instituted a file system for contracts. All bid documents are prepared by the System's Consultant, New England Pension Consultants, and they keep advertising and bidding documents on file. From this point forward the System will also keep copies of bid documents along with the contracts, ADV and Disclosure Statements in a contract file.

Final Determination: *PERAC Auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.*

Braintree Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2001	2000	1999	1998
Cash	\$3,489,359	\$4,526,676	\$3,273,923	\$1,458,706
Short Term Investments	0	0	0	0
Fixed Income Securities (1998 at book value)	26,806,187	31,724,969	27,718,416	28,245,363
Equities	32,886,396	39,398,259	43,765,733	36,506,001
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	13,812,963	0	0	0
Pooled International Equity Funds	10,104,916	11,424,436	11,551,021	8,908,518
Pooled Global Equity Funds	0	0	0	0
Pooled Domestic Fixed Income Funds	0	0	0	0
Pooled International Fixed Income Funds	0	0	0	0
Pooled Global Fixed Income Funds	0	0	0	0
Pooled Alternative Investment Funds	0	0	0	0
Pooled Real Estate Funds	4,575,541	4,493,038	3,255,145	3,021,286
Pooled Domestic Balanced Funds	0	0	0	0
Pooled International Balanced Funds	0	0	0	0
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	0	0	0	0
Interest Due and Accrued	292,440	343,454	305,104	216,818
Accounts Receivable	0	65	0	248,290
Accounts Payable	(41,188)	(85,864)	(47,094)	(43,908)
TOTAL	<u>\$91,926,614</u>	<u>\$91,825,033</u>	<u>\$89,822,248</u>	<u>\$78,561,074</u>
FUND BALANCES		\$91,567,378		
Annuity Savings Fund	\$23,311,641	\$21,592,522	\$20,533,778	\$19,464,439
Annuity Reserve Fund	7,190,717	6,997,793	6,418,694	6,103,891
Military Service Fund	1,414	1,388	1,359	3,654
Pension Fund	10,301,965	10,860,593	11,280,710	11,647,448
Expense Fund	0	0	0	0
Pension Reserve Fund	51,120,877	52,372,737	51,587,707	41,341,642
TOTAL	<u>\$91,926,614</u>	<u>\$91,825,033</u>	<u>\$89,822,248</u>	<u>\$78,561,074</u>

Braintree Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1998)	\$18,054,942	\$6,071,944	\$3,568	\$11,714,366	\$0	\$32,727,647	\$68,572,467
Receipts	2,247,666	\$177,492	86	5,036,623	501,936	8,716,122	16,679,925
Interfund Transfers	(558,598)	558,471				127	0
Disbursements	(279,570)	(704,017)	0	(5,103,541)	(501,936)	(102,256)	(6,691,320)
Ending Balance (1998)	19,464,440	\$6,103,890	3,654	11,647,448	0	41,341,640	78,561,072
Receipts	2,373,447	185,914	46	5,112,173	443,258	10,245,380	18,360,218
Interfund Transfers	(888,017)	889,673	(2,341)			685	0
Disbursements	(416,505)	(760,369)	0	(5,478,911)	(443,258)	0	(7,099,043)
Ending Balance (1999)	20,533,365	6,419,108	1,359	11,280,710	0	51,587,705	89,822,247
Receipts	2,810,192	191,698	29	5,309,666	564,034	785,033	9,660,652
Interfund Transfers	(1,304,717)	1,304,717					0
Disbursements	(446,317)	(917,732)	0	(5,729,783)	(564,034)	0	(7,657,866)
Ending Balance (2000)	21,592,523	6,997,791	1,388	10,860,593	0	52,372,738	91,825,033
Receipts	2,795,963	211,835	26	5,486,998	556,722	(1,251,447)	7,800,097
Interfund Transfers	(803,074)	803,488				(414)	0
Disbursements	(273,770)	(822,398)	0	(6,045,625)	(556,722)	0	(7,698,515)
Ending Balance (2001)	<u>\$23,311,642</u>	<u>\$7,190,716</u>	<u>\$1,414</u>	<u>\$10,301,966</u>	<u>\$0</u>	<u>\$51,120,877</u>	<u>\$91,926,615</u>

Braintree Retirement System

STATEMENT OF INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999	1998
Annuity Savings Fund:				
Members Deductions	\$2,272,191	\$2,134,892	\$1,863,444	\$1,729,248
Transfers from other Systems	100,870	232,244	56,210	6,519
Member Make Up Payments and Redeposits	21,579	24,259	42,137	86,777
Investment Income Credited to Member Accounts	<u>401,323</u>	<u>418,797</u>	<u>411,656</u>	<u>425,122</u>
Sub Total	<u>2,795,963</u>	<u>2,810,192</u>	<u>2,373,447</u>	<u>2,247,666</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>211,835</u>	<u>191,698</u>	<u>185,914</u>	<u>177,492</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	80,626	77,920	76,998	75,746
Received from Commonwealth for COLA and Survivor Benefits	479,363	508,878	525,000	597,435
Pension Fund Appropriation	<u>4,927,009</u>	<u>4,722,868</u>	<u>4,510,175</u>	<u>4,363,442</u>
Sub Total	<u>5,486,998</u>	<u>5,309,666</u>	<u>5,112,173</u>	<u>5,036,623</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>26</u>	<u>29</u>	<u>46</u>	<u>86</u>
Sub Total	<u>26</u>	<u>29</u>	<u>46</u>	<u>86</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>556,722</u>	<u>564,034</u>	<u>443,258</u>	<u>501,936</u>
Sub Total	<u>556,722</u>	<u>564,034</u>	<u>443,258</u>	<u>501,936</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	22,413	27,043	50,080	38,322
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	5,758	5,222	3,323	9,642
Excess Investment Income	<u>(1,279,618)</u>	<u>752,768</u>	<u>10,191,977</u>	<u>8,668,158</u>
Sub Total	<u>(1,251,447)</u>	<u>785,033</u>	<u>10,245,380</u>	<u>8,716,122</u>
TOTAL RECEIPTS	<u>\$7,800,097</u>	<u>\$9,660,652</u>	<u>\$18,360,218</u>	<u>\$16,679,925</u>

Braintree Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999	1998
Annuity Savings Fund:				
Refunds to Members	\$193,006	\$263,098	\$305,281	\$169,485
Transfers to other Systems	80,764	183,219	111,224	110,085
Sub Total	<u>273,770</u>	<u>446,317</u>	<u>416,505</u>	<u>279,570</u>
Annuity Reserve Fund:				
Annuities Paid	806,274	747,624	717,228	663,512
Option B Refunds	16,124	170,108	43,141	40,505
Sub Total	<u>822,398</u>	<u>917,732</u>	<u>760,369</u>	<u>704,017</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	3,761,142	3,550,225	3,416,949	3,151,815
Survivorship Payments	374,351	380,387	368,838	357,314
Ordinary Disability Payments	121,149	131,171	132,320	135,971
Accidental Disability Payments	999,190	885,866	833,370	845,846
Accidental Death Payments	368,265	366,983	334,961	266,018
Section 101 Benefits	59,501	54,808	44,283	40,780
Section 100 Benefits	250,563	257,946	226,124	226,124
3 (8) (c) Reimbursements to Other Systems	111,464	102,397	122,066	79,673
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0	0
Sub Total	<u>6,045,625</u>	<u>5,729,783</u>	<u>5,478,911</u>	<u>5,103,541</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	155,000	109,500	88,000	92,500
Legal Expenses	7,072	14,849	19,013	12,297
Medical Expenses	0	0	0	550
Travel Expenses	5,117	2,759	3,224	2,059
Administrative Expenses	44,987	69,928	51,921	51,196
Furniture and Equipment	6,687	83	0	5,418
Management Fees	243,587	265,003	222,384	254,148
Custodial Fees	55,534	64,444	36,799	56,768
Consultant Fees	38,738	37,468	21,917	27,000
Sub Total	<u>556,722</u>	<u>564,034</u>	<u>443,258</u>	<u>501,936</u>
TOTAL DISBURSEMENTS	<u>\$7,698,515</u>	<u>\$7,657,866</u>	<u>\$7,099,043</u>	<u>\$6,589,064</u>

Braintree Retirement System

INVESTMENT INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2001**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2001	2000	1999	1998
Investment Income Received From:				
Cash	\$204,279	\$178,082	\$92,508	\$77,692
Short Term Investments	0	0	0	0
Fixed Income	1,486,037	1,535,800	1,523,026	1,751,191
Equities	0	0	0	0
Pooled or Mutual Funds	1,322,508	0	0	0
PRIT Fund	0	0	0	0
Commission Recapture	0	89,776	0	0
TOTAL INVESTMENT INCOME	<u>3,012,824</u>	<u>1,803,658</u>	<u>1,615,534</u>	<u>1,828,883</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	853,587	1,030	11,169
Realized Gains	469,264	207,514	187,361	581,686
Unrealized Gains	14,107,603	13,676,040	17,927,430	8,208,029
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>292,440</u>	<u>343,455</u>	<u>305,104</u>	<u>216,818</u>
Sub Total	<u>14,869,307</u>	<u>15,080,596</u>	<u>18,420,925</u>	<u>9,017,702</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	(207,841)	(610,695)	(66,213)
Paid Accrued Interest on Fixed Income Securities	(192,734)	(328,261)	(438,731)	(220,154)
Realized Loss	(775,584)	(67,720)	(732,541)	(416,019)
Unrealized Loss	(16,683,732)	(14,048,002)	(6,804,823)	0
Custodial Fees Paid	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(343,455)</u>	<u>(305,104)</u>	<u>(216,818)</u>	<u>(371,404)</u>
Sub Total	<u>(17,995,505)</u>	<u>(14,956,928)</u>	<u>(8,803,608)</u>	<u>(1,073,790)</u>
NET INVESTMENT INCOME	<u>(113,374)</u>	<u>1,927,326</u>	<u>11,232,851</u>	<u>9,772,795</u>
Income Required:				
Annuity Savings Fund	401,323	418,797	411,656	425,122
Annuity Reserve Fund	208,173	191,698	185,914	177,492
Military Service Fund	26	29	46	86
Expense Fund	<u>556,722</u>	<u>564,034</u>	<u>443,259</u>	<u>501,937</u>
TOTAL INCOME REQUIRED	<u>1,166,244</u>	<u>1,174,558</u>	<u>1,040,875</u>	<u>1,104,637</u>
Net Investment Income	<u>(113,374)</u>	<u>1,927,326</u>	<u>11,232,851</u>	<u>9,772,795</u>
Less: Total Income Required	<u>1,166,244</u>	<u>1,174,558</u>	<u>1,040,875</u>	<u>1,104,637</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$1,279,618)</u>	<u>\$752,768</u>	<u>\$10,191,976</u>	<u>\$8,668,158</u>

Braintree Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash		\$3,489,359	3.81%	100
Short Term		\$0	0.00%	100
Fixed Income		\$26,806,187	29.24%	40 - 80
Equities		\$32,886,396	35.87%	60**
Pooled Short Term Funds		\$0	0.00%	
Pooled Domestic Equity Funds		\$13,812,963	15.07%	60**
Pooled International Equity Funds		\$10,104,916	11.02%	15**
Pooled Global Equity Funds		\$0	0.00%	
Pooled Domestic Fixed Income Funds		\$0	0.00%	
Pooled International Fixed Income Funds		\$0	0.00%	
Pooled Global Fixed Income Funds		\$0	0.00%	
Pooled Alternative Investment Funds		\$0	0.00%	
Pooled Real Estate Funds		\$4,575,541	4.99%	10
Pooled Domestic Balanced Funds		\$0	0.00%	
Pooled International Balanced Funds		\$0	0.00%	
PRIT Cash Fund		\$0	0.00%	
PRIT Core Fund		\$0	0.00%	100
GRAND TOTALS	\$0	\$91,675,362	100.00%	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

** Total Equities not to exceed 60% including International Equities, which shall not exceed 15%

For the year ending December 31, **2001**, the rate of return for the investments of the **Braintree** Retirement System was -0.13%. For the five-year period ending December 31, **2001**, the rate of return for the investments of the **Braintree** Retirement System averaged 9.07%. For the seventeen-year period ending December 31, **2001**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Braintree** Retirement System was 10.31%.

Braintree Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

The **Braintree** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

September 23, 1986

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short-term obligations.

20.07(6) Sales of equity investments shall not exceed 150% of the average market value of all equity holdings in any twelve-month period.

October 12, 1995

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities, which shall not exceed 10% of the portfolio valued at market.

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

December 21, 1995 (Metric Apartment Co – Investment Trust)

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

- (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;
- (b) such personnel retain authority in the decision making process, and
- (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

Braintree Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

August 13, 1997

20.03(1) Equity investments shall not exceed 60% of the portfolio valued at market, including international equities, which shall not exceed 15% of the portfolio valued at market.

Braintree Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Braintree** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Braintree Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Braintree Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Braintree** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

September 27, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c.7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

Braintree Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement, (The Braintree Retirement Board has adopted a local option under c.32 § 20(4)(c)), consisting of a first and second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by PERAC after being nominated by the other four board members.

Appointed Member:	Carl R. Johnson, III	Term Expires:	11/18/2004
Appointed Member:	David M. Shaw	Term Expires:	11/18/2004
Elected Member:	Gerald J. Kenny, Jr.	Term Expires:	06/30/2005
Elected Member:	Phyllis DiPalma	Term Expires:	06/30/2005
Appointed Member:	Edward Dowd	Term Expires:	02/27/2006

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	\$30,000,000 Fiduciary Liability
Ex officio Member:)	Travelers (\$10M Primary)
Elected Member:)	Federal Insurance Co. (Chubb Group) (\$10M Excess of Primary)
Appointed Member:)	Executive Risk Indemnity, Inc. (\$10M Excess of \$20M)
Staff Employee:)	\$1,000,000 Commercial Crime – Employee Dishonesty

Braintree Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Stone Consulting, Inc.** as of **January 1, 2002**.

The actuarial liability for active members was	\$71,232,146
The actuarial liability for inactive members was	473,129
The actuarial liability for retired members, survivor, and beneficiary was	<u>61,144,585</u>
The total actuarial liability was	132,849,860
System assets as of that date were	<u>91,926,614</u>
The unfunded actuarial liability was	<u>\$40,923,246</u>
 The ratio of system's assets to total actuarial liability was	 69.2%
As of that date the total covered employee payroll was	\$28,775,379

The normal cost for employees on that date was 7.99% of payroll

The normal cost for the employer was 5.55% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 91,926,614	\$ 132,849,860	\$ 40,923,246	69.2%	\$28,775,379	142.22%
1/1/2000	89,822,248	117,318,111	27,495,863	76.6%	24,276,115	113.26%
1/1/1998	68,897,791	112,686,983	43,789,192	61.1%	22,658,090	193.26%
1/1/1995	45,077,121	77,687,186	32,610,065	58.0%	19,618,301	166.22%
1/1/1994	44,758,000	83,305,000	38,547,000	53.7%	18,084,000	213.16%

Braintree Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDING DECEMBER 31, 2001

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Superannuation	16	12	17	22	22	18	17	12	24	14
Ordinary Disability	1	0	0	0	1	2	0	0	1	0
Accidental Disability	2	2	1	1	1	1	0	1	5	1
Total Retirements	19	14	18	23	24	21	17	13	30	15
 Total Retirees, Beneficiaries and Survivors	 482	 482	 489	 476	 469	 477	 477	 476	 481	 473
 Total Active Members	 611	 611	 613	 613	 613	 612	 638	 690	 711	 745
 Pension Payments										
Superannuation	\$2,356,412	\$2,418,021	\$2,539,554	\$2,682,836	\$2,828,555	\$3,061,898	\$3,151,815	\$3,416,949	\$3,550,225	\$3,761,142
Survivor/Beneficiary Payments	327,529	339,611	357,365	337,472	342,345	357,723	357,314	368,838	380,387	374,351
Ordinary Disability	157,448	147,594	136,123	121,417	129,730	120,150	135,971	132,320	131,171	121,149
Accidental Disability	771,976	793,514	836,317	849,927	867,518	907,713	845,846	833,370	885,866	999,190
Other	<u>399,416</u>	<u>468,413</u>	<u>514,312</u>	<u>521,790</u>	<u>597,127</u>	<u>611,401</u>	<u>612,595</u>	<u>727,434</u>	<u>782,134</u>	<u>789,793</u>
Total Payments for Year	<u>\$4,012,781</u>	<u>\$4,167,153</u>	<u>\$4,383,671</u>	<u>\$4,513,442</u>	<u>\$4,765,275</u>	<u>\$5,058,885</u>	<u>\$5,103,541</u>	<u>\$5,478,911</u>	<u>\$5,729,783</u>	<u>\$6,045,625</u>